HOUSING MARKET OUTLOOK
Windsor CMA

CANADA MORTGAGE AND HOUSING CORPORATION

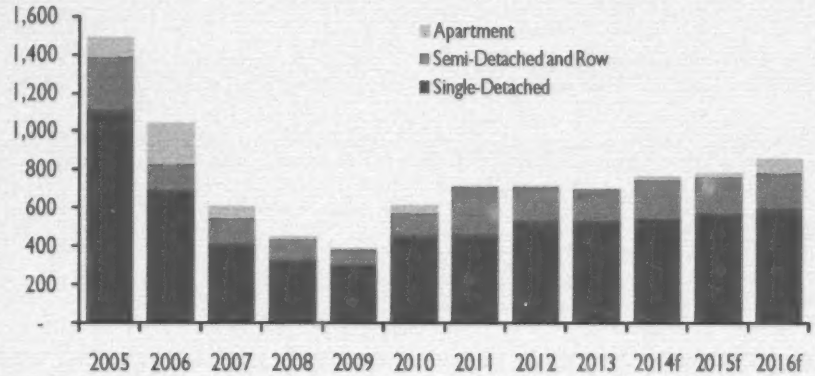
Date Released: Fall 2014

Highlights

- Housing starts will continue to trend higher through 2016
- Existing home sales will increase in 2015 before moderating slightly in 2016
- The resale home market will be balanced with prices continuing to trend higher
- Rental apartment vacancy rates will continue to decline

Figure 1

Single-Detached Starts to Increase Slightly Through 2016



Source: CMHC forecasts.

The forecasts included in this document are based on information available as of October 22, 2014.

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New Home Market: Housing Starts Trend Higher

New residential construction in the Windsor Census Metropolitan Area (CMA) will trend higher through 2016. Starts will reach 770 in 2014, 785 in 2015 and 860 in 2016. Demand for single-detached homes and townhouses will support housing starts. Although apartment starts will remain low this year and next, housing starts in 2016 will be boosted by an increase in apartment construction. According to industry contacts, more first-time buyers and immigrant buyers are buying new. Immigrants move to Windsor due to affordable housing prices, the diverse culture and weather. Housing starts will be slightly below what would be needed to provide homes for all new households based on projected household growth. Information from the building industry in Windsor indicates that there is a shortage of skilled workers which is constraining growth in housing starts.

Windsor homeowners favour ground-oriented homes with single-detached homes leading the way. The availability of serviced lots, a growing population, and relatively affordable prices will support the growth in single-detached starts. Local planning departments have registered more approved plans of subdivision than they did in the past, an indication that new construction will be growing in the next few years. After plans of a subdivision have been registered, developers can obtain building permits and begin construction. Residential building permits have been trending higher over the last few months. Approximately 70 per cent of all new construction will continue to be single-detached homes.

There is increased demand for higher-end and custom-built homes as purchasers cannot find these types of homes in the resale market. Move-up buyers with families are attracted to larger homes away from the core. Employment drives demand. Increased employment for those in the 45-64 age group will support move-up buyer demand. More than 40 per cent of those employed are 45 or older. While more people in the 18-24 and 25-44 age groups are moving away from Windsor than are moving to Windsor, the reverse is the case for the 45-64 age group and this will support demand for new single-detached homes.

The average price of a single-detached home will increase close to six per cent in 2014, but grow more modestly in 2015 and 2016. The growth in the average price in 2014 is due to the surge in demand for higher-priced homes in most areas outside the City of Windsor. Rising incomes and home equity will enable buyers to purchase more expensive homes. In 2014, the average price of a single-detached home in Windsor will increase as a higher percentage of homes completed had prices above $350,000. Prices will grow by about two per cent in both 2015 and 2016.

Townhouse construction will remain strong. Townhouses are an affordable alternative to single-detached homes for households which have more modest incomes but prefer a new home. Demand from young households and retirees for townhouses will result in strong townhouse starts through 2016. A demographic shift to smaller households will also support demand for townhouses.

Apartment construction in 2014 and 2015 will be limited by the high vacancy rates and the strong preference for ground-oriented homes. A new condominium apartment building is in the planning stages and is expected to start construction in 2016, boosting apartment starts to the highest level since 2006.

Figure 2

Source: CREA; CMHC Forecast
Note: Sales are seasonally adjusted and are multiplied by 4 to show an annual rate. Prices are seasonally adjusted. MLS® is a registered trademark of the Canadian Real Estate Association

Resale Home Market: Sales Steady

Existing home sales in Windsor-Essex will increase about three per cent in 2015 and decline by a slightly larger amount in 2016. After a slow start to 2014 due to the harsh winter conditions, resale activity increased in the second and third quarters and will reach 5,400 by year's end, an increase of 1.1 per cent from 2013. Sales activity will be impacted by the timing of any mortgage rate changes. Sales will pick up through the first half of 2015 in anticipation of mortgage rates increasing in the second half of 2015. Population growth through migration and a slowly growing economy will support this level of housing demand. Windsor remains the most affordable CMA in Ontario.

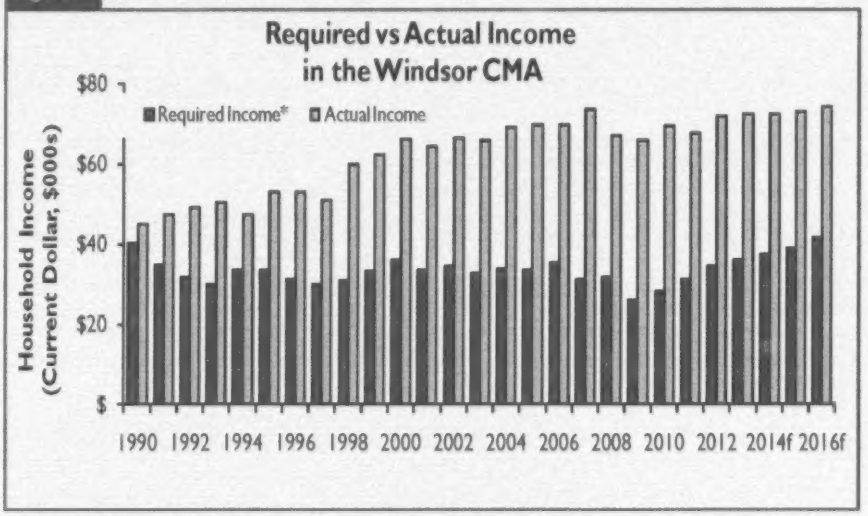
From the point of view of housing demand, most jobs in Windsor are good jobs as Windsor's housing market is so affordable. Current demand is also supported by the low mortgage rates. Although most of the households buying homes in Windsor are from the area, many people living elsewhere are retiring to Windsor-Essex due to its affordable housing and are supporting the local economy and housing markets. Marketing of the 100-mile peninsula is underway to attract households, especially retirees, to the Essex area. Lower employment in the 25-44 age group has meant fewer first-time buyers. Part of this decline in employment is due to a decrease in the labour force as more people in this age group are leaving than are moving to Essex County. Higher employment in the 45-64 group has supported repeat buyer demand. These buyers are moving up to a larger home or buying down to a smaller home, but not necessarily a less expensive home.

Figure 3

Source: CMHC

Supply is a challenge. Many households are renovating their homes rather than moving. As with sales, new listings took a hit in the first quarter of 2014 due to the never-ending winter. However, new listings have trended higher in the second and third quarters of 2014. As the economic recovery continues and

Figure 4



Sources: CMHC, Statistics Canada, CREA, f= CMHC Forecast. Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 percent gross debt service ratio. Mortgage carrying costs are calculated on the average MLS® price, a 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization

prices rise, more homeowners are listing their homes for sale. Continuing price growth will encourage more homeowners to list their homes for sale in the next two years.

With sales and listings relatively stable over the next two years, the sales-to-new listings ratio will show that the market is remaining in balance and upward price pressure is limited. Moderately priced homes will be in demand, both from those first-time buyers still in the market and also from downsizing seniors. The average price of a resale home will increase by four per cent to $187,000 in 2014 and continue to increase in 2015 and 2016. The relatively low average price for homes in Windsor-Essex will continue to support demand.

Rental Market: Vacancy Rates to Decline

The apartment vacancy rate in the privately-initiated rental market will continue to trend lower, declining to five per cent in 2014, 4.7 per cent in 2015 and 4.5 per cent in 2016. Although demand is increasing, virtually no new rental units have been completed in the Windsor CMA in a decade. With the vacancy rate declining, expect the average rent to increase each year through 2016.

Demand for rental apartments will be driven by population growth through immigration and employment gains for 15 to 24 year olds as well as growing numbers of students and seniors. Increased demand for rental accommodation will also come from construction workers from outside the area who are working on the many infrastructure projects in Windsor. With improving employment for 15-24 year olds, more young adults will be able to form households and move to rental accommodation. On the other hand, declining employment in the 25-44 age group will result in some renter households delaying their home purchases. The cost gap between renting and owning will continue to widen, and fewer renter households will be moving into homeownership. First-time buyer movement out of rental will not be strong enough to offset the increased rental demand.

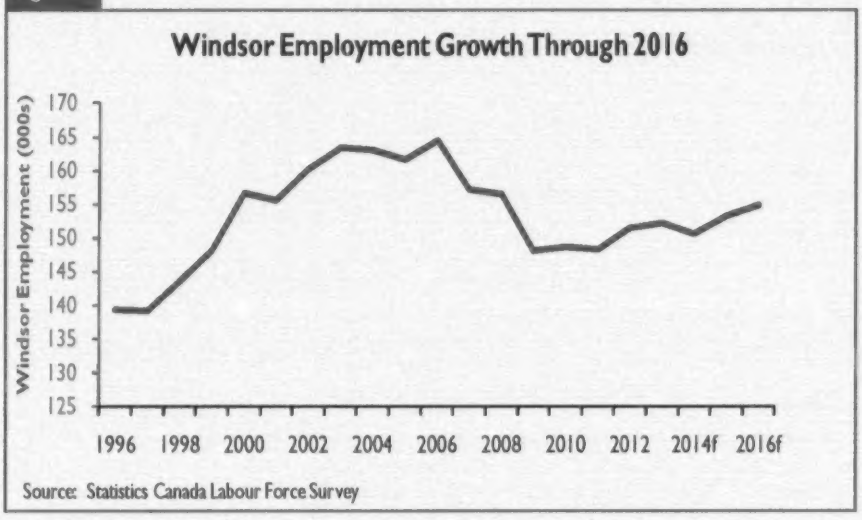
The population in the Windsor CMA will continue to grow. Migration will add an average of 1,250 people per year to the population through 2016. Immigrants and non-permanent residents will be the driving force behind this population increase. Immigrants typically rent when they first come to Canada. International migration has added approximately 1,400 people per year to the population in the last two years. Foreign student enrolment of the University of Windsor has increased adding to the number of non-permanent residents looking for rental accommodation. Demand for rental accommodation will come from increased student enrolment at the University of Windsor and St. Clair College. Students are a traditional source of rental demand, both on and off-campus. Seniors will also add to rental demand. Seniors are the fastest growing segment of the population. Approximately 20 per cent of seniors live in apartments.

The average rent will increase modestly in 2014 to $805, in 2015 to $815 and in 2016 to $830. Average rent increases will be constrained by the relatively high vacancy rate, slow income growth, and the Ontario Rent Increase Guideline. The guideline is 0.8 per cent in 2014 and will be 1.6 per cent in 2015.

Local Economy: Slow Growth

There will be only modest economic growth in the next three years. Although employment will decline slightly in the Windsor CMA in 2014, slight growth will occur in both 2015 and 2016. This growth

Figure 5



will be driven by the ongoing economic recovery in the US and local infrastructure projects. Goods-producing employment will continue to strengthen. Rising demand for auto parts will increase employment in the manufacturing sector. Several local infrastructure projects are currently underway in the Windsor CMA, supporting construction employment. Construction employment will also be supported by the Detroit River International Crossing (DRIC) which should commence construction with the completion of the Herb Gray Parkway. In addition, ICT (information and creative technology) and agri-business are growing industries. Services sector employment has not fared as well and will continue to lag behind the goods-producing sector. However, the lower Canadian dollar will lead to an increase in cross-border shopping which will support the retail sector in Windsor.

Keeping younger adults in Windsor is a challenge. The labour force for those 25-44 continues to shrink. The labour force in this age group has declined by more than 6,000 in the past year.

The unemployment rate in 2014 will decrease to 8.5 per cent, in 2015 to 8.2 per cent and in 2016 to 7.8 per cent. Employment growth will outpace growth in the labour force. However, the number of people entering, rejoining or delaying retirement from the labour force will keep the unemployment rate elevated. With slight employment declines in 2014, there will be little to no wage growth. Wage growth will pick up in 2015 and 2016 as the economy continues to strengthen, particularly among higher wage sectors.

Mortgage Rate Outlook

Mortgage rates are expected to remain unchanged until the latter months of 2015

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to remain unchanged until the latter parts of 2015 and then begin to increase gradually. Gradual increases in mortgage rates from historic lows are not expected to significantly impact housing demand.

According to CMHC's base case scenario for 2014, CMHC expects the one-year mortgage rate to be in the 3.00 to 3.25 per cent range, while the five-year rate is forecast to be within the 5.00 to 5.50 per cent range. For 2015, the one-year mortgage rate is expected to be in the 3.20 to 4.00 per cent range, while the five-year rate is forecast to be within the 5.25 to 6.00 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.70 to 4.60 per cent range, while the five-year rate is forecast to be within the 5.55 to 6.45 per cent range.

Mortgage rates		
1 Year	Q3 2014	3.14
	Change from Q3 2013	0.00
	2014 (F)	3.00 - 3.25
	2015 (F)	3.20 - 4.00
	2016 (F)	3.70 - 4.60
5 Year	Q3 2014	4.79
	Change from Q3 2013	-0.48
	2014 (F)	5.00 - 5.50
	2015 (F)	5.25 - 6.00
	2016 (F)	5.55 - 6.45

Source: Bank of Canada, CMHC Forecast
NOTE: Mortgage rate forecast is based on Q3 2014 data

Trends at a Glance

Key Factors and Their Effects on Housing Starts	
Mortgage Rates	Mortgage rates are expected to remain at historical low levels which will continue to support housing demand.
Employment	Employment in Windsor will decline by 1.1 per cent in 2014, but increase by 1.9 per cent in 2015 and 1.0 per cent in 2016. The goods-producing sector will lead this growth.
Income	There will be little to no income growth in 2014. However, average incomes will grow by close to one per cent in 2015 and 2016.
Population	Population growth will come from immigration and a slight increase in intra-provincial migration.
Resale Market	Sales will increase by 1.6 per cent to 5,400 in 2014. Sales will increase by 3.7 per cent to 5,600 in 2015, but decline by 3.6 per cent in 2016 to 5,400. The market will be balanced. A gradual increase in listings will moderate price gains.

Forecast Risks

This outlook is subject to some risks, including:

- While the outlook for the Canadian housing sector is one of moderate growth in the near term with moderation expected in the medium-term, there are risks to the Canadian housing sector outlook. First, there is some evidence of a short-term build-up of supply in select housing markets, particularly in the multi-unit segment. Second, household debt-levels, while stabilizing, continue to be high relative to historical standards.
- Given that Canada is an open economy, there are a number of global market risks to consider as well that could put added pressure on housing market supply imbalances and the ability of households to service their debt, through their impact on household incomes, employment and lending rates, were they to occur.
- There is a risk of a slowdown in China, with the chance China could miss its 2014 growth targets, coupled with uncertainty regarding the stability of the Chinese banking system.
- In the Euro area, there are deflationary concerns due to prolonged low inflation and a weak growth outlook. As a result, the Euro zone could move to the use of further stimulus measures, like quantitative easing, to encourage economic growth.
- In Japan, recent increases in sales taxes have led to larger than anticipated reductions in economic growth. Declining growth could lead to further stimulus measures taken in Japan.
- There is heightened concern about how renewed geo-political tensions in the Middle East could impact global markets, particularly commodities.
- While the growth forecast for the U.S. has been upgraded from a disappointing first quarter of 2014, there remains uncertainty in regards to the strength of the post-recession recovery in the U.S. A less optimistic economic growth forecast could weaken Canadian economic performance, particularly exports. While Canadian exports are showing signs of recovery, the strength of the recovery is uncertain and could take longer than currently anticipated.
- Recent upward movements in Canadian consumer prices could lead to pressure to raise interest rates earlier than currently anticipated and would likely translate to rising mortgage rates. However, the Bank of Canada has indicated that it expects recent upward price movements to only be temporary, primarily reflecting a weak Canadian dollar. In any case, the BOC noted in its June 2014 Financial System Review that a significant housing market correction would require a market event leading to declining household incomes and rising unemployment. Gradual increases in mortgage rates, in and of themselves, are not expected to have a significant impact on housing demand.
- Canadian debt levels relative to income may leave households vulnerable to adverse shocks.

Forecast Summary Windsor CMA Fall 2014									
	2011	2012	2013	2014(F)	% chg	2015(F)	% chg	2016(F)	% chg
New Home Market									
Starts:									
Single-Detached	466	536	535	550	2.8	575	4.5	600	4.3
Multiples	253	181	173	220	27.2	210	-4.5	260	23.8
Semi-Detached	92	68	44	80	81.8	60	-25.0	60	0.0
Row/Townhouse	153	107	121	120	-0.8	130	8.3	130	0.0
Apartments	8	6	8	20	150.0	20	0.0	70	**
Starts - Total	719	717	708	770	8.8	785	1.9	860	9.6
Average Price ($):									
Single-Detached	331,494	330,396	330,960	350,000	5.8	360,000	2.9	370,000	2.8
Median Price ($):									
Single-Detached	300,000	289,403	306,084	325,000	6.2	335,000	3.1	345,000	3.0
New Housing Price Index (% chg.)	-3.1	2.0	1.0	2.0	-	2.0	-	2.0	-
Resale Market									
MLS® Sales	4,946	5,082	5,341	5,400	1.1	5,600	3.7	5,400	-3.6
MLS® New Listings	9,749	9,380	9,395	9,400	0.1	9,500	1.1	9,500	0.0
MLS® Average Price ($)	166,008	172,047	179,820	187,000	4.0	191,000	2.1	193,000	1.0
Rental Market									
October Vacancy Rate (%)	8.1	7.3	5.9	5.0	-0.9	4.7	-0.3	4.5	-0.2
Two-bedroom Average Rent (October) ($)	753	778	788	805	2.2	815	1.2	830	1.8
Economic Overview									
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.25	-	3.20 - 4.00	-	3.70 - 4.60	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-	5.55 - 6.45	-
Annual Employment Level	148,200	151,400	152,200	150,500	-1.1	153,300	1.9	154,900	1.0
Employment Growth (%)	-0.3	2.2	0.5	-1.1	-	1.9	-	1.0	-
Unemployment rate (%)	9.6	9.8	8.9	8.5	-	8.2	-	7.8	-
Net Migration	-1,457	1,867	1,406	1,200	-14.7	1,250	4.2	1,300	4.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

** Percent change > 200%

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October **Rental Market Survey** (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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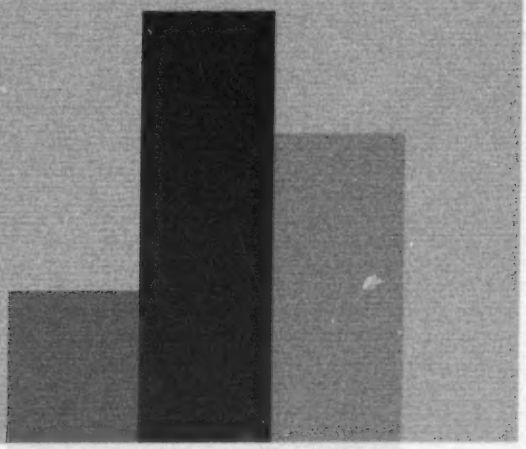

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